

Town of Bedford Finance Committee

Town Hall, Selectmen's Meeting Room

July 9, 2015

Members in attendance: Tom Busa, Karen Dunn, Elizabeth McClung, Paul Mortenson, David Powell, Steve Steele, Ben Thomas.

Others in attendance: David Coelho, *School Finance Director*; Victor Garofalo, *Director of Finance and Collector/Treasurer*; Jim O'Neil, *Capital Expenditures Committee*; Barbara Perry, *retiring FinCom member*; Roy Sorenson, *DPW Director*; Julie Turner, *The Bedford Citizen*.

FINAL WATER OVERAGE TALLY: For the benefit of newer members as well as those not in attendance at the previous meeting's water presentation, Mr. Sorenson provided some background about Bedford's water sources:

- The Town purchases water from Lexington via a 1993 MWRA Inter-municipal Water Supply Agreement. The cost is established by the MWRA wholesale rate per million gallons, plus a 1% demand charge.
- The wholesale rates go up yearly. Prices per million gallons: FY13=\$3032; FY14=\$3124; FY15=\$3242.

The MWRA says the rate will rise to \$3488 per MG, a 7.7% increase. This is due, primarily, to debt service for water projects such as the Deer Isle treatment plant in Boston Harbor and aqueduct upgrades in Cambridge. FY15 Commodity charges are \$3522.88 per MG and the Demand charge totaled \$59,941.68 or \$4,995.14 a month.

Mr. Sorenson then showed historical water purchase figures back to 2004 in both spreadsheet and line graph form. Removing the aberrant years during which there was inordinate system flushing due to bacteria readings, Mr. Sorenson showed the more "normal" years from which the DPW will project future years' budgets.

"We took the average and that's how we came up with our budget number for this year," Mr. Sorenson said. "We're going to amend the budget at fall Town Meeting....We didn't do any additional flushing and we tried to understand why we're purchasing so much more water [12% more] than last year... Irrigation use—commercial, residential [and town]—was up 25%."

Ms. McClung asked if flushing is metered. Mr. Sorenson replied the DPW estimates/generalizes those amounts. He added that a meter was recently installed on one of the hydrants near the middle school that is flushed most often. "We put in some sampling stations and those automatically flush, too. We have four near the schools throughout town."

Mr. Sorenson said he must report unaccounted-for water use to the DEP yearly. If the number is over 10%, an audit of the system is required.

Also adding to a higher-than-usual water purchase this year is the fact that the three active Town wells were off for all or part of period: one well is awaiting DEP ok to turn back on; another is scheduled capital project funding; the third was closed as a precaution following a private plane crash at Hanscom Field in May of 2014. The third well was re-opened in January 2015 and is currently the only one functioning.

Mr. Steele asked if an insurance claim could be filed against the well closure costs due to the Hanscom accident. Mr. Sorenson said Bedford closed the well as a precaution and that DEP tests never showed contamination. He said he could nonetheless look into it. If all three wells are operational, they account for 15% of Bedford's total water use.

Tallying up the water usage numbers over the previous year, Mr. Sorenson said that even after removing the irrigation increases and accounting for the impact of well closure, total water use went up 5.5%.

He explained: "In particular, this past May and June were very dry months. We did get some rain by the end of June. Our flows coming in from Lexington were upwards of 2.7 to 3 million gallons a day [during that period], which is excessive. Normally, our average in-take per day is 1.2-1.6 million throughout the year. On warmer days, it's roughly 1.8-2.0 million gallons a day. We were alarmed when we saw [so much] coming in on consecutive days so we started to go through everything and look at the big picture to make sure we didn't have something going on we weren't aware of. At that point in May [when it started], we hadn't done any active flushing yet. We figured out we didn't have anything wrong in the system but there are other areas we need to take a look at."

"Over the past three years, we've purchased more water than in the previous eight years," Mr. Sorenson said.

Ms. Dunn asked if water purchase is tied to population numbers. Mr. Sorenson said it's true that more water is used if the population increases. Mr. Thomas said population numbers have not risen but Mr. Sorenson added that business activity has recently accelerated.

Mr. Steele asked how water revenue is keeping pace with water expenditures. Mr. Garofalo said that, currently, water revenue is at about 90% as of the end of May. "I don't see us hitting 100% and that's what we need to address," Mr. Garofalo said. "We're bringing in more water and we should see that in the revenue. Irrigation was high in May and June but we actually don't bill that water out until subsequent months. People are going to start seeing bills for water usage from May and June in July or August. The revenue from those months won't be realized until FY16."

Another thing the Town is looking at is why some commercial/industrial accounts' usage was low even though water intake was high. "We have some issues out there and we are addressing them, not only by fixing/replacing meters but also [by adjusting the assumptions] we base our budgets on...We're hoping we won't be back in front of you again for a Reserve Fund transfer for water again—unless irrigation is up again in May and June again next year," Mr. Garofalo said.

Mr. Thomas asked if the Town plans to establish an Enterprise Fund for water, as it has for the

ambulance service. Mr. Garofalo said this is being considered but first a new computer software billing platform will be installed. "After we get that in place this fall and winter, it's possible we might propose a water Enterprise Fund at Annual Town meeting next year or the year after...We [already] try to operate the water and sewer rates as an Enterprise fund."

Analyzing overall water revenue, Mr. Garofalo said that residential and commercial use seem to be down. But, he added, "The reason we think commercial use is down is because of [faulty] meters; in theory, it should be up."

"Is Town use through the roof?" asked Mr. Steele. "Not necessarily," replied Mr. Garofalo. "We have meter issues out there and once we fix them, we'll see that industrial use is up...[Plus] May and June, we're showing huge amounts of water coming in [but we haven't billed out for it all yet.]"

Town irrigation and Schools are the biggest users of water in town, Mr. Steele said, to which Ms. McClung added that she'd like to see an accounting of these uses. Mr. Powell reasoned that Town use must add up to 20% of the total water purchase or "residential and industrial use must be drastically more than we think it is."

"There are variables," said Mr. Sorenson. "We're looking at everything."

Mr. Garofalo said it is clear that the unaccounted-for additional use is due to irrigation. "We've actually only sent out one bill sequence [of six]—sequence 52— that has May and June on it. "Last year, irrigation was 49,000 cubic feet measured on the residential. This year, same time, 203,000 measured. In irrigation alone, we're going to see an increase in revenue but it isn't going to be recognized until FY16. If we read every meter in town now, we'd probably see a high irrigation usage but we measure them into six pies and that's how we measure it."

Mr. Busa asked if Lexington now bills Bedford for water in a timely fashion. Mr. Garofalo said billing isn't behind anymore because Bedford sends Lexington monthly readings.

Mr. Busa asked if water meters are all read with drive-by technology. Mr. Sorenson replied some houses—particularly the newer ones— are read that way but some are not. All meters are scheduled for upgrade as part of an upcoming capital project.

To adjust the current water budget, Mr. Garofalo said, "We are increasing the water purchase at Special Town Meeting to what we think should be the actual number will be, based on a three year average and increased by [the MWRA rate hike of] 7.7%."

Ms. McClung asked if the athletic fields have moisture sensors installed so that they don't irrigate needlessly. Mr. Sorenson said all the fields now have sensors that can be controlled remotely.

Ms. McClung said that Bedford should appeal to the MWRA to improve the chlorine content of the water. Mr. Sorenson agreed but said that Bedford first has to finish relining and upgrading its main water lines before turning to the Water Authority for redress. "Our chlorine values have been extremely good for this time of year," he said of recent readings. "When the temperatures come up, that's when

you start seeing issues.”

Mr. Garofalo said they had tried to keep water rates from hiking too much but the best they could do was recommend a 7.1% increase, a rise that the Selectmen recently approved. “There are three parts of this: the water rates just from the town of Lexington are going up 7.7%; then you have the sewer main lining; and last there are insurance and benefits, other fixed costs and capital improvement... Originally, we thought it was going to be 12%.”

About the Selectmen’s approval of the rate, Mr. Thomas said, “I have a philosophical problem with how it’s done. I think water is water and charging difference rates for irrigation versus potable use is not what I would do.”

Mr. Steele said he believes the Town’s usage is the culprit. “You know A, you know B, you don’t know C. That’s where the problem lies.”

Mr. Garofalo responded, “We’re doing more homework; we’re doing more audits. After we’ve done industrial/commercial, we’ll start looking at residential and see if any audits are necessary there.”

Mr. Sorenson said that several meters that had aberrant readings have already been corrected. By this October, the remaining commercial meters will all be assessed on the basis of age and functionality. If a meter is close to 20 years old, it will be replaced at the business’s expense, according to Town bylaw. Mr. Sorenson said his office will alert businesses about the effort so no one is caught off guard.

RESERVE FUND TRANSFERS:

Water= \$232,021.96: Mr. Garofalo said there are two parts to the remedy for water FY15 water overages:

- A \$50,000 inter-fund transfer from the DPW Energy account to the water purchase account. This transfer is possible due to lower-than-expected energy prices.
- A Reserve Fund transfer for the remaining amount of \$232,021.96.

Mr. Busa asked if the Selectmen have looked at the other fund balances to see if more money can be used as an offset such as the Refuse fund that has grown by \$32,000 in eleven months. Mr. Garofalo replied that this is a revolving account and that \$40,000 is slated to be used as an offset for refuse collection costs. “We can’t use that fund for anything other than Refuse, based on the Town Meeting vote to create the revolving account,” Mr. Garofalo said.

As for other accounts, Mr. Garofalo replied that the Selectmen have not done this type of review. However, he pointed out that \$76,000-\$86,000 was reclaimed last year for Free Cash by closing dormant account balances. “But, there’s nothing that can be applied to the water purchase. These are all for a specific purchase,” he said.

Mr. Busa remarked the upcoming year could be the worse Free Cash in years. Mr. Garofalo replied he didn’t think this will come to pass because Local Receipts are so robust.

Mr. Thomas said he would love to have the minutes of his life back that have been spent repeatedly going over the Special Fund account balances. “We talk about this all the time, endlessly—to no avail, to no conclusion. It goes absolutely nowhere. I would love to see a list of goals for these accounts...Personally, don’t know if these funds are good, bad or indifferent and the reason I don’t know is that I don’t know what the goal is.”

Mr. Busa said discussion of these funds would continue until FinCom is provided with the list of goals. “We should stop opening more funds. We just talked about starting another one for water.”

Mr. Garofalo said that funds had been found to offset the Police Dept.’s former request for a \$30,000 Reserve Fund transfer. The department also limited overtime to save costs.

As a remedy to the Committee’s frustration, Mr. Garofalo said he would provide a description of the Town side funds, including what each one is used for. Mr. Steele said the Committee has already seen this information. The question really is, what is the plan for how the funds will be used? Mr. Thomas said the Schools said they would produce a list of accounts and goals by the next budget cycle. “I don’t have the answers because I don’t know the goals. If you don’t have goals, you can’t measure. If you can’t measure, you don’t if you’re succeeding or failing,” Mr. Thomas said.

Mr. Garofalo cautioned that it can be deceptive to take snapshots of the different accounts because balances fluctuate throughout the year. Negative balances might indicate reimbursable grants that haven’t come in yet.

But Mr. Busa said, if you take a snapshot on July 1 of one year and July 1 of the next year, you’re comparing apples to apples. “I don’t need another snapshot. Funds have gone up again but we’ve raised taxes... I think FinCom needs to own this issue with liaisons. It has to be the first thing on the agenda when they meet with the departments about their budgets. If we don’t get a satisfactory answer, we just lower everyone’s budgets by the amounts that are sitting in the funds until they come to us and say, ‘Here’s what we’re going to do with the money.’”

Vocational Education= \$25,051.04: Mr. Garofalo said that the funds are needed to pay for one additional/unexpected student’s enrollment and Special Ed services at Minuteman Tech.

Homeless Student Transportation= \$229,145.84: School Finance Director David Coelho explained that the amount represents expended as well as encumbered amounts. “Generally, it’s all private vendors although sometimes another city will send a van and you’ll have to pay them. Sometimes, you have to chase down vendors. Sometimes the vendors bill the full amount to [one community], expecting [that community] to come to us for our half.”

Mr. Thomas asked if there’s any money somewhere other than the Reserve Fund that could be used to offset this amount. Mr. Coelho replied that the Schools have used more than they anticipated from the funds at their disposal. “I budgeted \$116,000 from the building rental; more from the athletics account by \$4,000-\$5,000; E Rate about \$10,000. We’re scratching away at it. We have about a \$4,000-\$5,000 balance in the account right now, hoping that nothing else unexpected comes in... There may be some

money, but not to this extent.”

Davis School Modulars= \$98,000: Facilities Director Alani reported on this item at the June 25, 2015 meeting.

Utilities School= \$26,803.60: Mr. Coelho confirmed this is the last year that utilities will be in the School budget. “Usage has always been an estimate based on several years. That will vary a lot with when the warm weather stops and begins. Commodity rates went up 12% more than we anticipated.”

Ms. McClung asked if the Schools have problems with windows being left open when air conditioners are on. Mr. Coelho replied, on the whole, that there are not a lot of areas in the schools that have air conditioning.

Mr. Steele asked whether money from the rental account could be used to offset. Mr. Coelho replied that some money has been used. Mr. Steele asked if rental is up or down. Mr. Coelho replied that it’s down but only by a few thousand dollars.

Mr. Busa said the rental account balance is up from where it was last year. Mr. Coelho said it may appear to be but he’s using \$156,000 as an offset in the upcoming budget. “The balance at this time last year was \$185,600 and now it’s \$147,200. Most of the money I apply at the end of June [so the \$196,000 balance you’re looking at has changed.] The goal for this account has always been to apply it as an offset to the budget to smooth things out. At the current rates we’re using it...by 2019, we’re going to end up with \$28,000. There’s going to come a year when we’re not going to have [the kind of offset we’re used to] unless we get a huge revenue boost— which I don’t anticipate.”

Mr. Busa asked if there is one person in the School Department that’s responsible for rentals. Mr. Coelho said he has one staff member who does that as part of her/his job, using a program called School Dude. Renters can book space online.

Mr. Busa counted multiple people in separate departments who deal with rentals: Town Center/ Old Town Hall/ the train (Faye Russo); the library (admin assistant Janel Ranney); the Police Station (staff); the Town Hall (Town Manager’s office). Rec does the athletic fields. “We have three or four bodies in the Town that we pay to rent rooms. Wouldn’t it be easier if we combined this into one job? Have all the money to flow into one spot and use it to offset to pay [principle and interest] for the buildings?”

Mr. Busa continued: “If you’re using \$125,000 on a yearly basis from this account to offset your budget we can do a one-time, \$125,000 increase and then you don’t have to worry about it anymore. We look at the library and so the same thing. It’s just streamlining... Then this conversation is over and we don’t have to have it again.”

Mr. Thomas agreed the idea is worth considering.

The discussion turned to the School Lunch fund. The goal is to have 3 months’ worth of expenses on hand to pay bills. The balance is up from a couple of years ago when the program was \$60,000 in the red. This year, revenue was steadier although June is a traditionally a low-income month because of

field trips and, at the high school, the seniors have left. Lunch priced increased this year at BHS and JGMS but participation at BHS is quite low and the JGMS population was down by about 40 students. To stop hemorrhaging money, the Lunch Program Director limited labor costs and worked to lower his food costs.

Ms. McClung pointed out that there isn't enough time for students to go through the lunch line and then eat their meals before it's time to return to class. Mr. Coelho agreed that it was difficult to eat a meal in 15 minutes but he added that program director might install a swipe card system to speed up the checkout line.

Mr. Steele said the lunch program should be self-sustaining and food service staff insurance and benefits should be covered by revenue.

Utilities Town=\$5,000: The overage is higher (\$15,605) but Facilities Director Alani was able to find savings in other areas. Mr. Garofalo said, because all energy costs will be under Facilities, neither the Town nor the School budgets will be able to cover any shortages. They will have to come to the Finance Committee for a Reserve Fund transfer.

MOTION: Mr. Mortenson moved that Finance Committee approve a Reserve Fund transfer of \$25,051.04 to the Vocational Education account # 001.1300.5780.0000.5325/5324. Ms. McClung seconded. The motion carried 7-0-0.

MOTION: Mr. Mortenson moved that Finance Committee approve a Reserve Fund transfer of \$229, 145.84 to the School Department for homeless student transportation costs. Ms. McClung seconded. The motion carried 6-0-1 with Mr. Powell abstaining.

MOTION: Mr. Mortenson moved that Finance Committee approve a Reserve Fund transfer of \$98,000 to the Facilities/ Davis School maintenance fund for Davis School modulares. Ms. McClung seconded. The motion passed, 6-0-1 with Mr. Powell abstaining.

MOTION: Mr. Mortenson moved that Finance Committee approve a Reserve Fund transfer of \$26,803.60 to the School Dept. Utilities account. Ms. McClung seconded. The motion passed, 6-0-1 with Mr. Powell abstaining.

MOTION: Mr. Mortenson moved that Finance Committee approve a Zero Fund transfer of **up to** \$5,000 to the Facilities account # 001-3500-5211. Ms. McClung seconded. The motion passed, 7-0-0.

MOTION: Mr. Mortenson moved that Finance Committee approve a Reserve Fund transfer of \$232,021.96 to the Water Purchase account # 001.4007.5230.0000.5450. Ms. McClung seconded. The motion passed, 7-0-0.

MOTION: Mr. Mortenson moved that the Finance Committee approve an inter-fund transfer of \$50,000 from Public Works Energy segregation to Public Works Water Purchase. Ms. McClung seconded. The motion passed, 7-0-0.

Mr. Garofalo reminded the Committee that an earlier \$1,500 Reserve Fund transfer for the Planning Department had also been approved. Mr. Steele emphasized that these one-time budget increases should be carefully noted so as not to go awry in the following budget cycle, although it was acknowledged that this specific transfer will not affect the bottom line from which subsequent budgets are formed.

FISCAL POLICIES: Recommendations for changes to the first 2 of 4 pages of the policies include an update to the Capital Improvement program description to encompass the new processes. Mr. Mortenson will draft some language and send it to the other members for comment. Ms. Perry agreed to contribute her input, if needed, although she has stepped down from the Committee.

Other than that, Mr. Steele said he did not see any other major changes to the first two pages. Mr. Garofalo agreed with Mr. Steele that adding a sentence about using Free Cash for “one-time expenses only” would be prudent. Although Free Cash is not directly used to balance the Operating budget, it was acknowledged that it is indirectly used.

Mr. Powell made the point that, the more FinCom squeezes the special funds and accounts, the less flexibility there will be to adjust to circumstances that arise. Mr. Thomas countered that having “lots of little pockets of cash” leads to sloppiness. Moving all utilities into one budget, for example, makes for better efficiency. Ms. McClung said, on the other hand, if a department has to cover its own utility costs, it will be more motivated to conserve. Mr. Garofalo said nothing will change: facilities has monitored utilities in the past and it will continue to monitor it. Mr. Busa said a lot of money has been spent on installing efficiency systems that are now controlled centrally.

Edits to the first two pages of the policies can be done in August. Looking ahead at pages 3 and 4, Mr. Thomas recommended that members think seriously about the debt parameters section that now reads “less than 10% of Operating”. Mr. Steele said the Committee will discuss debt at the August 13 meeting.

Returning to the Reserve Fund, Mr. Powell asked what would have happened if there hadn’t been enough money in Reserve to cover needs. Mr. Garofalo said the hope is that there are additional funds in other areas to be tapped.

Mr. Busa said FinCom just approved over \$300,000 in Reserve Funds for the Schools. “The Schools have a list of hundreds of thousands of dollars we could have forced them to use by saying, “We vote no.”

Mr. Powell asked what would happen if all those funds were exhausted. “What if we get all these funds down to zero every year? Doesn’t that increase the volatility of the Operating budget?”

Mr. Busa replied he doesn’t think so. Mr. Thomas said, “Until I see the Reserve Fund in trouble for three years in a row, I will not be in favor of changing this approach.” Mr. Garofalo said this year had been extreme and that a lot of that had to do with the impacts of water overage, snow and homeless student transportation. The Reserve has been exactly ½% of Operating for the past five years, just as the policy dictates. “[The Reserve is] the last number we adjust,” Mr. Steele said.

Mr. Garofalo said there are always funds that wind up not being needing. “You’re always projecting and

estimating. Insurance and benefits is a good example. You always assume the worst and it ends up coming in better.”

MEETINGS ATTENDED: Mr. Thomas said the Selectmen discussed the new Town Counsel, water and sewer rates (as discussed above) and Red Heat Tavern.

OPEN DISCUSSION: Ms. McClung asked if there is any news about whether the former St. Michael’s land fields will be proposed as turf or natural grass. Mr. Steele said, as far as he knows, this will be on the Capital list this year but the type of field is still up in the air.

Mr. Garofalo said there will be a lot of budget amendments at Special Town Meeting this fall. The Hanscom student money is expected to come in. The debt budget will be changed as will the insurance and benefits and DPW budgets. “This will probably result in additional money being available for the Stabilization Fund. Remember, we took money out of Stabilization last year for Capital.”

Mr. Steele said he would reach out to Selectmen Chair Mark Siegenthaler about the special funds under Selectmen control. “This is the perfect opportunity to look at those accounts and start digging into them. We need some plan. I’m really not in favor of giving extra money until we understand these accounts.”

Mr. Thomas said he believes “there are a lot of people that just assume the money will go right back into Capital.” Mr. Garofalo said he would start looking at the special and reserve accounts and make some notes to help move the process along. “Maybe if did into the ones that can only be used for specific things and code them differently, we’ll only have to focus on [the others],” he said.

Mr. Steele said Recreation has come before FinCom several times saying they would get a handle on their accounts, yet the balances continue to go up. Mr. Garofalo said that Rec has not reached out to him to discuss their finances.

“It’s very simple,” said Mr. Busa. “All we have to do is underfund the Selectmen’s budgets by \$900,000 and it’s all gone. If they don’t like it, all they have to do is go to Town Meeting and explain to the people why we should sit on \$900,000 for no reason. Unless they come in with a plan...We should start a dialog in August so they come up with a plan that’s stable and concrete.” Mr. Thomas said he wants to make sure Rec is melded into the Capital process.

THANKS TO RETIRING MEMBER BARBARA PERRY: Mr. Steele thanked Ms. Perry for her service to the Committee and to the Town. “You’ve given me historic information in an accurate manner. You have been a wealth of knowledge.”

Mr. Thomas thanked Ms. Perry for her service, her flexibility, creativity, and willingness to do the hard work. “Usually when people stay in one job for a long time, they get stuck. You never got stuck. I appreciate you were always able to come up with a fresh perspective.”

Ms. Perry said FinCom is a wonderful committee that takes its work seriously and looks out for the citizens of Bedford.

ADJOURNMENT: Mr. Powell moved to adjourn the meeting. Mr. Busa seconded. The motion passed, 7-0-0.

Respectfully submitted,
Kim Siebert, FinCom Recording Secretary